

Internal Revenue Service

Department of the Treasury

District
Director

[REDACTED]

Date: OCT 23 1995

Employer ID Number:

Person to Contact:

Telephone Number:

Refer Reply To:

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code.

The information submitted indicates that you were incorporated on [REDACTED], in the State of [REDACTED]. Your Articles of Incorporation state that the organization was organized to promote the concept of Bed and Breakfast in [REDACTED] and tourism in the State through education, publications, quality and safety standards.

Full members are required to pay dues as well as have their establishments inspected and certified by the organization as meeting certain quality standards. Associate members pay a reduced dues amount and are not required to pass an inspection. Associate members have no voting rights and do not appear in any materials of the organization.

You intend to accomplish your purposes with several activities. Twice a year the organization conducts seminars on topics of interest to owners of Bed & Breakfast establishments. These meetings are open to members and non-members. Registration fees are charged for attendance at these meetings based on the individual's membership status with the organization. Attendance at these meetings has been made up of mainly members of the organization.

Regional Directors of the organization perform inspection services for prospective members.

Another activity of the organization is the preparation and distribution of a brochure. The brochures list all members of the organization and provide information about each member's establishment. The brochures are made available at tourist information centers, each member's establishment and other areas.

The organization has also prepared and distributed a book of photos and information regarding each member's establishment. Copies of the book have been placed in the tourist information centers and at each member's establishment.

A cookbook is also published and distributed by the organization. The cookbook is distributed to the members at cost and then sold by the members.

According to a schedule provided by your representative (copy attached), the directors of the organization spent between █% and █% of their time in the preparation and distribution of advertising materials, ie -- brochures, photo albums, B & B promotion and Advertising and cookbooks, for the years ending █. Further, for the years ending █, expenditures for these activities constituted █%, █% and █% of the organization's total expenditures, respectively.

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(a) and reads, in part, as follows:

(6) Business leagues, chambers of commerce, real estate boards, boards of trade, ***, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Section 1.501(c)(6)-1 of the regulations provides as follows:

"A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis, produces only sufficient income to be self-sustaining is not a business league. ***"

Revenue Ruling 1965-1 C.B. 236 provides that an organization formed to promote the tourist industry in its area and whose principal activity is the publication of a yearbook consisting largely of paid advertisements for its members is not exempt under Internal Revenue Code (IRC) section 501(c)(6). The revenue ruling further stated that the publication of advertising matter containing listings of the names of individual members constitutes advertising for the individuals so advertised and is thus considered the performance of particular services for such individuals, rather than an activity aimed at the improvement of general business conditions.

The activities of a business league must be directed to the improvement of business conditions of one or more lines of business in order to qualify for exemption. However, activities can't be directed to the performance of particular services for individuals and still qualify for exemption.

While the semi-annual member meetings do appear to have some educational aspects, a substantial portion of the organization's activities are to provide advertising for the members of the organization. This causes a direct benefit to flow to the members in the form of the performance of particular services similar to the situations described in Revenue Rulings 65-14 and 67-77 above.

Accordingly, it is held that you are not entitled to exemption from Federal Income Tax as an organization described in IRC section 501(c)(6), and you are required to file Federal Income Tax Returns on Form 1120.

[REDACTED]

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

Sincerely,

[REDACTED]

District Director

Enclosures:
Form 6018
Publication 892